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Weekly Review



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14 June 1974

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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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ITALY

THE CRUNCH

The collapse of still another center-left government this week has plunged Italy into a serious political crisis. The main protagonists in the dispute, the Christian Democrats and the Socialists, appear unwilling to budge from their opposing positions on fiscal policy. The dispute over economic policy comes at a time when Italy cannot afford to postpone much longer the major decisions that are required to deal with the country's critical economic problems.

The Socialists continue to oppose the credit restraints that the Christian Democrats, Italy's largest party, feel are necessary to stabilize the faltering economy. Meanwhile, the labor unions have made clear that they will press their economic demands on any new government, although they have indicated they would support a program that would equitably distribute austerity and avoid unemployment.

The consultations between President Leone and various political leaders that have followed the submission of Prime Minister Rumor's resignation on June 10 have not produced a compromise. In addition, no political figure seems anxious to become prime-minister - designate.

If the negotiations are contentious and long, they will add weight to the argument of the Communist Party, Italy's second largest, that the country cannot be governed effectively without its participation. Communist Party leader Enrico Berlinguer reiterated this theme in a speech on June 12 when he said the government should be "based on the collaboration of all popular forces." Berlinguer's main objective at this time appears to be the formalization of the "cloak-room" consultations that have long taken place between the Communists and the governing parties in parliament. The Socialist Party has endorsed this idea and may make it a bargaining point in negotiations to form a new government.

Well-placed US embassy sources report that Leone has under consideration the possibility of submitting the issues that divide the government to parliament for an open debate and vote. Leone may float this prospect to bring pressure on the Socialists—who would not want to bear the full onus of the break-up of the center-left coalition—to make concessions.

The Socialists are not likely to yield. They have been exuding confidence over the Christian Democrats' defeat in the recent referendum on divorce, which they interpret as a sign of a basic shift in Italian attitudes in favor of more rapid social change. If, as expected, the regional election next week in Sardinia results in Christian Democratic losses and Socialist gains, the Socialists will probably become even more intransigent.

Rumor's resignation was preceded by an announcement that the trade deficit in April had again topped \$1 billion, pushing the deficit in the first four months of the year to over \$4 billion. About half this deficit results from petroleum imports. Also contributing is a growing demand for quality food products, which Italy's backward agricultural system cannot provide. The demand has resulted from rapidly rising wages in recent years.

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Italy has been unable to obtain foreign loans to cover the deficit, except for a \$1.2-billion standby credit from the International Monetary Fund. The head of the Italian central bank claims that the country's credit has been exhausted. The government has resisted devaluation because its short-term effect would be to aggravate inflation, which is already running at 25 percent.

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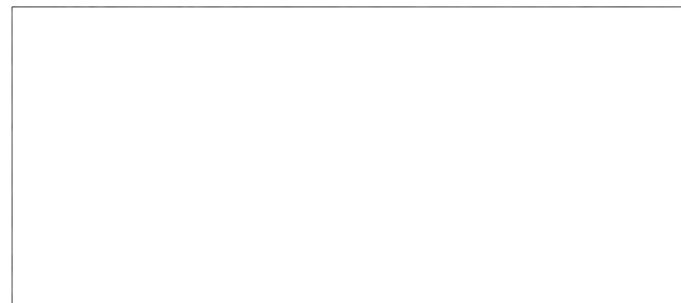
SYRIA-ISRAEL

DISENGAGEMENT PROGRESSES

The disengagement of Syrian and Israeli forces on the Golan Heights proceeded smoothly this week. Officers from both armies met almost daily at a temporary UN command post on the Damascus - Al Qunaytirah road, talking usually through UN officers, as they did at Geneva, to coordinate the mutual withdrawal. The first phase of the four-stage disengagement will be completed on June 14, with the Israelis relinquishing one third of the pocket of territory they captured during the fighting last October. The last contingent of the 1,250-man UN force is also expected to be on the scene by this weekend.

As they withdrew, Israeli forces blew up military installations and removed captured military equipment as they did in the Sinai. The only potentially serious incident occurred when the Syrians fired warning shots over the heads of an

Israeli team attempting to retrieve some damaged Syrian equipment in the no-man's land between the two forces.



POWs

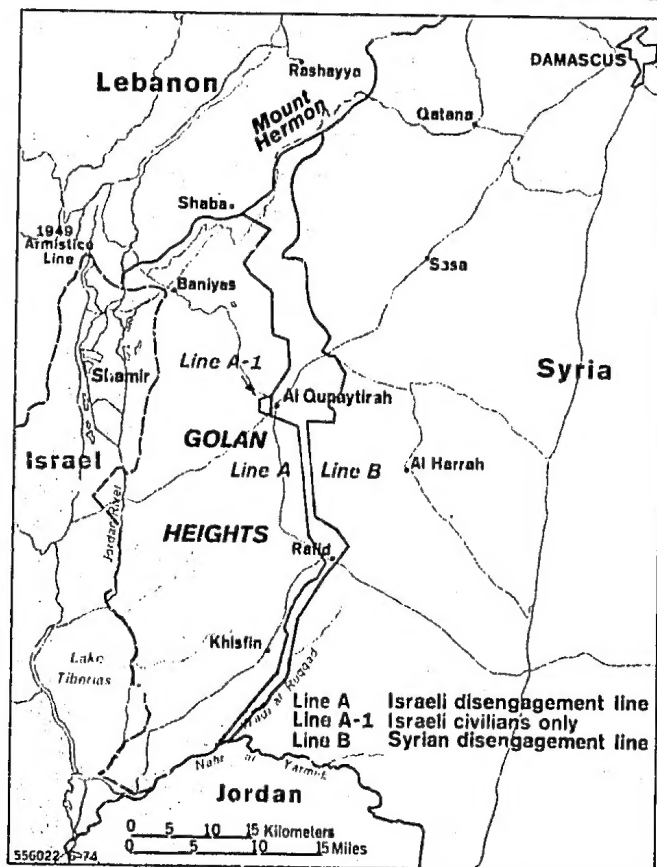
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The Israelis and Syrians exchanged charges this week of alleged maltreatment of returning prisoners of war. The new Rabin cabinet issued a strong denunciation of the Syrians, claiming they had tortured Israeli prisoners and that this may have resulted in the death of some of them. Despite the accusations, neither Tel Aviv nor Damascus is likely to let the issue jeopardize implementation of the disengagement accord.

Asad Interview

Appearing on a US television program filmed in Damascus, President Asad told US newsmen that, after consulting with other Arab leaders, Syria would put forth every effort to make the Geneva peace conference a success. Asad admitted that he had not received the guarantees he sought for a total Israeli withdrawal from occupied Arab lands, but he said that the US had promised to "continue to make efforts in order to establish peace in the Middle East."

Turning to US-Syrian relations, Asad said he believed US policy in the area had become more even-handed and that consequently Syria would resume diplomatic relations with Washington. He did not name a date, but the Syrian government probably intends to make a formal announcement during President Nixon's stay in Damascus.



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TERRORISTS STRIKE AGAIN

Three Israelis and three or four Palestinian guerrillas were killed on June 13 in a terrorist attack on Shamir, a small Israeli settlement near the Lebanese border. The radical Popular Front for the Liberation of Palestine - General Command claimed responsibility for the raid, and acknowledged that it was designed to upset progress toward a Middle East settlement during President Nixon's current visit to the area.

Israel's reaction to the attack is not likely to be as forceful as it was in the case of

the incident last month at Maalot. There were relatively few casualties this time, and Tel Aviv will be reluctant to have the matter assume such proportions as to overshadow other issues being discussed during the President's visit. In their discussions with the President, however, the Israelis almost certainly will use the attack to reinforce their argument that any comprehensive Middle East peace settlement must include Arab commitments to restrict the activities of the terrorist groups. [REDACTED]

FEDAYEEN

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UNDECIDED ON GENEVA

The Palestine National Council, the legislative arm of the Palestine Liberation Organization, concluded a nine-day meeting in Cairo last week-end without reaching a decision on the critical question of participation in the Geneva peace talks. Unwilling to face a showdown with representatives of the radical fedayeen groups that oppose participation, moderate PLO leaders agreed to delay making a decision until the organization is formally invited.

With this concession, PLO Chairman Yasir Arafat was able to forestall threatened withdrawals from his organization by the small groups that are cooperating under the label of the Rejection Front. Arafat would probably accept their opposition, and even their withdrawal, if he were convinced that the PLO will, in fact, be invited to Geneva on terms acceptable to the Palestinians. Without this assurance, however, he retreated to a policy statement sufficiently ambiguous to preserve at least the appearance of Palestinian unity.

The position paper finally approved by the council was much like that laboriously drafted by the PLO leadership in a series of meetings that preceded the Cairo session. It includes the compromise strategy of creating a Palestinian "national authority" over any land the Palestinians regain from Israel. It does not, however, include the blanket authorization to decide future strategy that the moderates had desired.

The council expanded the size of the PLO's powerful executive committee from 9 to 14. This increase will bring into the group a representative of the Popular Front for the Liberation of Palestine - General Command, the radical group that carried out the attack in April on Qiryat Shemona; an additional "independent" member; and three Palestinians recently expelled from the Israeli-occupied West Bank. The net effect of these changes will be to strengthen Arafat's hand; the new members from the West Bank were admitted into the larger council at his urging, and most independents have in the past been Arafat supporters.

In the Cairo debates, Arafat's conciliatory views were defended by Zuhayr Muhsin, leader of the sizable Syrian-controlled Saiqa group, and by spokesmen for the Marxist-oriented Popular Democratic Front for the Liberation of Palestine. This backing, coupled with that of Egypt and Syria, gives Arafat the capability to railroad his views through the PLO and to lead a delegation to the peace talks at a future time.

For the present, Palestinian leaders apparently intend to continue their hard line, while pressing Cairo and Damascus to elicit an invitation for them to attend the peace talks. As a matter of tactics they will continue to insist that any "acceptable" invitation must acknowledge the "rights of the Palestinians" and allow them to negotiate for an Israeli withdrawal from the occupied West Bank. [REDACTED]

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Law of the Sea

MEETING IN CARACAS

The approximately 150 countries participating in the third UN Law of the Sea conference, which opens in Caracas next week, hope to formulate a new approach to the use and exploitation of the ocean. The degree of success they have during the 11-week session will depend largely on reconciling two opposing concepts—freedom of the seas and resource control.

For the principal maritime nations—such as the US, USSR, and Japan—the traditional freedom of the high seas remains central to their commercial and strategic concerns. These nations control large shipping or fishing fleets as well as submarines and nuclear-powered vessels and possess the technology and equipment to exploit resources on the seabed.

On the other hand, the developing countries, increasingly concerned about protecting what they view as their legitimate share of world resources, strongly support applying the concept of the "common heritage of mankind" to what were previously the uncontested "high seas." Indeed, the translation of this concept into some sort of independent international authority for resource control may be the most significant outcome of the conference—if also the most difficult to negotiate. Even at this early stage, many countries are already convinced that a follow-up session will have to be held next year—probably in Vienna—to iron out the many areas of conflict between the principal opposing approaches.

The likelihood of a consensus emerging on the various specific issues appears remote because of the profusion, within the main groupings, of subgroups with unique geographical, ideological, or commercial problems. There are major areas of disagreement, for example, between members of the so-called Group of Five (the US, Japan, France, UK, and USSR). Fishing is a prime example, and is a problem that even divides the EC Nine. The major archipelago states, meanwhile, cannot even agree on a common definition to delineate their claims to a territorial sea.

Only the land-locked states present a solid front in their demands for access to the resources of their coastal neighbors and for international machinery to secure a fair distribution of seabed

resources. But the land-locked group is alone among the participants in having nothing to offer in the elaborate trade-offs that will be necessary at Caracas. Their votes—which, when combined with those of other geographically disadvantaged groups, will number about 60—will nevertheless be sought after. Even so, the land-locked may well find the support of their fellow developing states for the "common heritage" concept evaporating as the latter trade recognition for expanded zones under national economic control for guarantees to the major maritime countries of free transit rights.

The maritime powers' insistence on assuring free transit and overflight of straits will be a major factor in bargaining at Caracas. Traditional navigation rights are imperiled by unilateral extension of territorial seas—some states claim seas even beyond 200 miles—since within such areas of coastal sovereignty only the right of innocent passage, which can be arbitrarily defined, is recognized. The US and most maritime countries are prepared to accept a 12-mile territorial sea if they are assured the right of free transit through the straits that would be included within a territorial sea. Provision for free transit—which has important strategic and commercial implications—has thus become a major issue, and many of the less-developed states are now linking free transit rights to acceptance of some form of "economic zone."

The area included in this zone, and the specific responsibilities of the coastal state within it, have yet to be decided. Positions range from the extreme claims of hard-line Latin American states to those of fishing countries—such as Japan—or of the land-locked states that want as great as possible a limit on the area of national economic zones. Most developing countries are adamant on this score, while most developed countries are resigned to the probability that some form of economic zone is necessary. Nevertheless, negotiations are still likely to be prolonged and bitter. The land-locked countries have already served notice that their demands for joint participation in exploiting coastal state resources must be incorporated into any treaty, and that regional and bilateral arrangements will not be sufficient to assure them their "common heritage."

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FORCE REDUCTIONS STANDOFF

The current round of the East-West force reduction talks in Vienna is moving very slowly as each side attempts to entice the other to move in the direction of its basic position. Neither side has so far budged.

A spokesman for the Warsaw Pact nations set the tone last month by declaring that, after a thorough review of the negotiations, the pact had concluded that its proposal offered the best basis for agreement. Subsequently, Eastern representatives have stressed a familiar criticism of the Western proposal: that it seeks unilateral military advantage that would violate the principle of undiminished security. The East continues to emphasize the importance of having all direct participants reduce their forces from the outset. Otherwise, Eastern spokesmen argue, the West Europeans—and especially the West Germans—could build up their forces between phases.

In order to answer this criticism, the Allies have suggested that both sides agree not to increase the overall level of their ground forces after a first-reduction phase. The Allies have in mind a limited-time commitment that would apply between the negotiating phases.

The Soviets, while showing some interest in the Western idea, have raised two objections: first, it does not cover armaments, and thus would allow increases on the NATO side while Soviet tanks would be reduced and limited during the first phase; second, the West Europeans would be under no compulsion to follow through with second-phase reductions, and when the no-increase commitment expired they would be free to increase their forces. The Soviets further argued that if the West were willing to accept a no-increase commitment, it should also be willing to accept "symbolic reductions," obviating the need for a freeze.

The Soviets introduced the idea of symbolic reductions during the last negotiating round in an attempt to win Western agreement to reductions by all direct participants as a first step. The East has in mind small reductions, perhaps only in

ground forces. Eastern representatives have also assured the West that such reductions should be considered as separate from the basic Eastern proposal, and that Western acceptance of symbolic reductions would not oblige the Allies to proceed any further.

Several factors help explain the present Soviet stubbornness. A Romanian delegate has said that the Soviets can hardly be expected to make concessions until they have had a chance to weigh political uncertainties in the West and until after the Nixon-Brezhnev summit. Although Soviet representatives in Vienna have vehemently denied such motives, and although the summit is unlikely to deal with reduction negotiations in any detail, the Soviets may well be marking time to see what the Nixon-Brezhnev meeting reveals about the health of detente.

Another factor encouraging Soviet intransigence is the stagnation of the European security conference in Geneva. It is unlikely that the Soviets will allow the force reduction talks—begun on Western initiative—to make significant progress before the Soviet-inspired security conference has concluded. The Geneva conference has been at a virtual standstill since last April because of Soviet unwillingness to compromise on the matter of the freer movement of people and ideas between East and West. Even if the Soviets make last-minute concessions, it will probably be impossible for the final stage of the conference to be held in July, which Moscow still claims is its goal.

The Soviets may well be hoping that the Nixon-Brezhnev summit will break the deadlock. But that would not smooth the feathers of the West Europeans, who are becoming steadily more distressed about the security conference. They are unhappy with earlier compromises, and they are in a mood to stand firm against the Soviets. For the time being, the EC foreign ministers have decided to persevere at the conference, but the absence of progress will increase pressure for a more extreme policy, such as threatening to adjourn the meeting indefinitely.

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FRANCE

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NUCLEAR TESTING IMMINENT

The French nuclear test series for 1974 is expected to begin around June 15 in the South Pacific. Weather reporting exercises and notices of closure of "danger areas" at the test site as well as press reports from Paris indicate that the first detonation is imminent.

The primary objectives of the tests this year are probably further miniaturization and improvement of thermonuclear "triggering" devices. There are indications that the French also plan to work on the development of one or two tactical nuclear warheads.



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there is due both to public apathy and to Wellington's desire not to antagonize France in forthcoming delicate EC negotiations.

The French have been testing in the atmosphere at their Pacific test site since 1966. The tests have been accompanied each year by increasingly strong protests from various countries—especially Australia and New Zealand. International protest has been more subdued this year, however, possibly because of French President Giscard d'Estaing's recent public announcement that after this year all French tests will be conducted underground. The US embassy in New Zealand has indicated that the lack of reaction

On the other hand, criticism of the testing has increased at home. Giscard's announcement on June 10 that he was canceling one of the tests was probably made to placate domestic critics. The cancellation may also have been intended to take some of the sting out of charges by dismissed reform minister Servan-Schreiber that the military had virtually forced the government to go through with the tests.

Although Giscard did not specify which test has been canceled, the several hundred kiloton is a likely candidate. This device would probably

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produce greater fallout in the atmosphere than the lower yield tests that are planned and would almost certainly draw widespread criticism. For the past several years, France has countered world criticism of its tests by pointing out that the hazardous effects were negligible because of the low yields.

Neither the strategic missile that France plans to arm with MIRVs nor the nuclear-tipped stand-off missile system—which includes a new aircraft—will be available until around 1980. The testing of the several hundred kiloton device to develop the warhead for these systems could probably be delayed a year or so until France can detonate it underground.

AFRICAN TIES

President Giscard is reviewing the special relationship France has had with its 14 former black African colonies. There are signs that future French policy toward these areas, and toward Africa in general, will be influenced to a greater degree than it has in the past by commercial considerations and requirements for raw materials.

The President's decision to dissolve the secretariat general for community and Afro-Malagasy affairs clearly marked the end of an era. Jacques Foccart, head of the secretariat, which had reported directly to the President, had served as the prime mover in African policy matters since 1959 and had carried out covert missions for the Gaullists in Africa as well as in France.

Giscard, concerned lest black African leaders misinterpret his intentions, has acted quickly to reassure them of France's continued, though re-focused, interest. The President's new cabinet includes a Ministry of Cooperation charged with coordinating relations with the former colonies—an upgrading of Foccart's former job that was recommended by African leaders. In his first official luncheon—honoring President Senghor of Senegal—and in post-election letters to African heads of state, Giscard underlined his personal interest in African affairs.

The French President further indicated his desire to smooth relations with African leaders by pledging publicly to halt arms sales that could be used to prevent peoples from realizing self-determination. South Africa is widely believed to be a principal target of Giscard's remark, but the extent to which Paris may in fact prove willing to weaken its ties with Pretoria in order to gain favor with the black leaders is questionable.

Giscard's specific plans are not yet known, but he will most likely try to change the form of French relations with the former black African colonies to keep in step with the evolving African sense of independence. At the same time, he will attempt to preserve as long as possible a special relationship with those countries in which France has important economic and cultural interests at stake. He will also try to increase French influence in non-French-speaking areas of the continent where the economic potential is greatest or scarce raw materials are available. France is primarily interested in Nigeria, Ivory Coast, Gabon, Cameroon, Senegal, Zaire, Kenya, Mozambique, and Angola, as well as north Africa.

The movement toward re-evaluation of the Franco-African relationship began in the early 1970s as the French leadership under Pompidou began to take a less possessive attitude toward the colonies and to evaluate them more pragmatically, largely in terms of their economic value to France. Even the most hidebound French officials have come to realize that African development has become too costly for France to handle alone. With France's current economic problems, the Giscard regime is even less willing to carry the burden.

During the last two years, African leaders began to press the French for renegotiation of the accords that bind their countries to France. Paris had used the accords to ensure French dominance of commerce, trade, and finance, and to give France the decisive voice in cultural, military, and educational matters. Under Pompidou, Paris had been willing to revise technical, aid, and cultural accords, but was less forthcoming on monetary and defense matters.

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PORTUGAL: SPINOLA SETS THE COURSE

In a series of recent speeches, President Spinola has defined the limits on domestic liberalization and has discussed Lisbon's relations with its overseas territories. During his country-wide speaking tour, Spinola continued to stress the need for order and discipline, and served notice that civil disorder would be put down by force. His comments on African policy suggest that Portuguese authorities are becoming reconciled to the prospect that the colonies will ultimately achieve independence.

Referring to the wildcat strikes that had only recently been brought under control, Spinola made it clear in several speeches that it would not be possible to build an open society without law and order. The President's speeches were well received by large crowds, but the Portuguese Communist Party—which has a stake in the success of the provisional government—may have been as instrumental as Spinola in restoring labor peace.

Communists in the Labor Ministry and the syndicates have worked assiduously to put an end to the rash of wildcat strikes by persuading striking textile workers, bus and trolley operators, and bank employees to return to work and accept the government's new minimum monthly wage. The Communists are concerned that the strikes could lead to economic chaos and provide favorable conditions for a counter-coup by right-wing elements. There are no major strikes in progress now, but if labor feels the minimum wage is too low and does not bind enough employers, further labor disorders are likely, particularly in those firms that do not have effective control of the workers.

Although the cooperation of the Communist Party was vital in settling labor disputes, the difficulties encountered in persuading the workers to accept some of the terms show that the party's influence among the rank and file is not great, even though it controls many of the top syndicate posts. The Communist Party is capable of fomenting strikes at the plant level—even while condemning them publicly—but the US embassy in Lisbon is convinced that the party is acting in good faith at the moment.



The Socialists, on the other hand, have criticized the junta's tactics in maintaining order. They accused one junta member, General Galvao de Melo, of treating a few isolated incidents as a major threat to the government, and criticized him for having done nothing to check the alarmist climate that opponents of the provisional government were alleged to be fostering. This criticism is not likely to affect the junta's position, but it affords the Socialists a chance to establish a stand independent from the Communists, who remained silent on the matter. The Socialists are probably anxious to move out of the shadow of the Communists, who are their chief competition on the left.

Spinola publicly discussed African policy for the first time since the coup in a speech at the swearing-in ceremony for the new governors of Angola and Mozambique this week. The President said that the possibility of political independence

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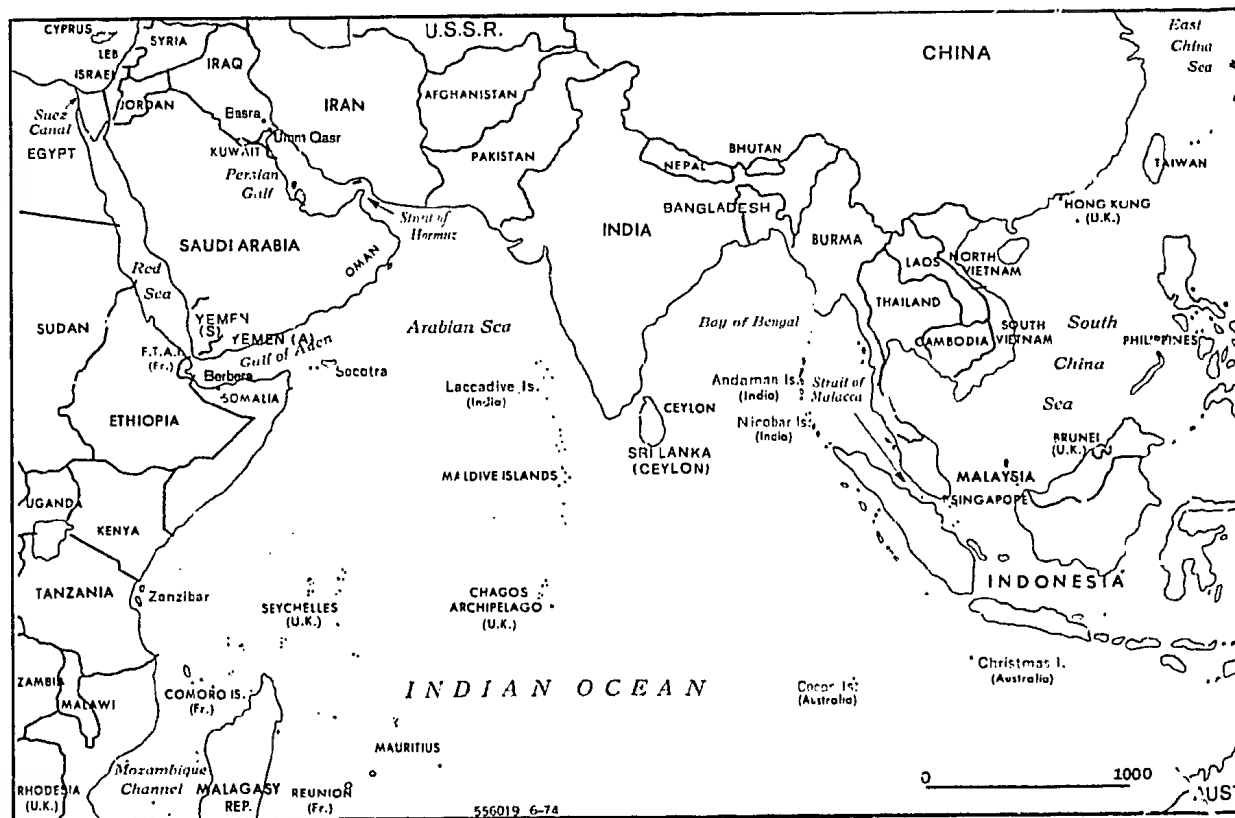
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was implicit in his announced policy of self-determination for the overseas territories. The reference to political independence represents a departure from Spinola's pre-coup statements, which favored a political federation linking Portugal and its overseas possessions. In his latest speech, Spinola promised that the future of these territories would depend solely on the wishes of their inhabitants. He insisted, however, that there must be cease-fire agreements, followed by the establishment of democratic institutions. The proposals Spinola set forth in his speech will be tested during the second round of talks with Portuguese Guinea's insurgents, which opened on June 13 in Algiers.

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USSR

OPERATING IN THE INDIAN OCEAN

The recent arrival of a replacement group provides further evidence that Soviet naval operations in the Indian Ocean have developed certain recognizable patterns: the make-up of the force apparently has stabilized: the warships sent there operate for about a year; visits to Iraq have increased significantly; and more modern Soviet ships now visit the area.

The replacement force that arrived in the Indian Ocean in May is almost identical to the contingent it replaced. The force consists of a Kotlin-class destroyer, two Petya-II - class ocean escorts, two fleet minesweepers, and one F-class diesel attack submarine. This year the Soviets also sent an intelligence collection ship. This ship is operating at the entrance of the Persian Gulf, probably to gather information on US and Iranian ships in the area.

Soviet minesweepers and ocean escorts in these contingents have made a practice of visiting

Iraqi ports at the beginning and end of their Indian Ocean tours. A Soviet naval repair ship or a submarine tender has been present during these visits, suggesting that the Soviets have conducted repair or maintenance on the ships while they are in port. Most of these visits apparently have been to the port of Basrah, where major Iraqi naval facilities, including maintenance and repair, are available. One minesweeper of the current force is now near Basrah.

During the past year, more modern Soviet ships have been operating in the Indian Ocean. The force has been augmented twice by visits of Sverdlov-class cruisers. Two Kresta-II - class cruisers—among the most modern Soviet ships—a C-class nuclear-powered cruise-missile submarine, and a V-class nuclear-powered torpedo attack submarine have also operated there briefly while transferring from the Baltic and Northern fleets to the Pacific Fleet. These ships and submarines are the first of their class to operate in the Indian Ocean.

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USSR

WORLD PARTY CONFERENCE ENDORSED

After nearly a year of patient behind-the-scenes efforts, the Soviets used a *Pravda* article on June 5 to publicly register their "support" for a new world Communist conference.

The East Europeans, who had been Moscow's stalking horses in calling for the meeting, quickly followed Moscow's lead. Czech party leader Bilak echoed the call for a conference on June 6, and pledged Prague's support for an all-European party meeting similar to the gathering in Karlovy Vary in 1967 that led to the last world meeting in 1969. Several days later, Polish party chief Gierik proclaimed that the "great majority" of Communist parties supported the idea of a world gathering. The Hungarian press quickly joined the chorus, but also referred to the opposition of some parties to the conference.

Indeed, Moscow has a lot more missionary work to do. Many important Communist parties in Europe and Asia are less than enthusiastic about a world meeting. They fear—with much justification—that Moscow intends to use the occasion to denounce the Chinese and to impose a new orthodoxy on the international Communist movement.

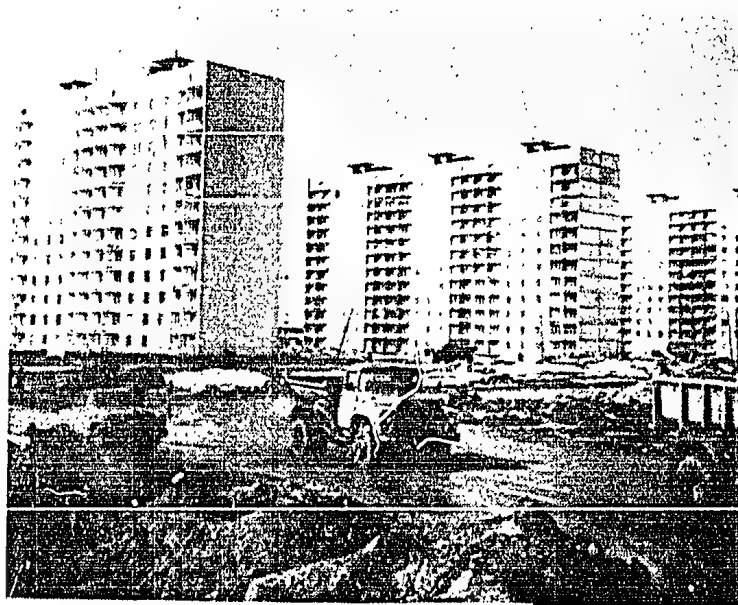
Two key East European parties have proved to be particularly irksome to the Soviets. The Romanians, who boycotted Karlovy Vary in 1967 and made trouble at the world conference in Moscow in 1969, have already posed several conditions for their attendance at another world gathering. Bucharest wants assurances that all parties will be permitted to attend and that no party (i.e., China) will be directly criticized. On these points, the Romanians have the support of the Yugoslavs. Belgrade has noted that "not a single party has emerged as host" to either a European or world meeting. The implication is that, in truth, only the Soviets really want a gathering of parties at this time.

The *Pravda* article will serve to push things along, but a world meeting is at least a year away. The Soviets will likely try to promote several regional meetings—particularly in Latin America and Europe—to try to hammer out a common approach. An all-European meeting probably could not take place before early 1975.

LOW GEAR AT KAMA

The USSR's Kama truck plant, showpiece of the 1971-75 plan, is running two years behind schedule and will not turn out its first trucks before the end of 1976 at the earliest. Plant officials have abandoned hopes of building 20,000 Kama trucks in 1975 to symbolize the success of the Five-Year Plan.

Construction of the giant \$4 billion complex, designed to produce 150,000 heavy diesel trucks a year, will continue well into the next five-year period. The plant probably will not reach full operating capacity before 1978. After four years of intensive construction activity by a massive work force of up to 60,000, the basic structures of five main production plants have



Workers' housing at Kama

**Soviet Purchases of Equipment
for Kama Truck Plant**

<u>Country</u>	<u>Value (\$ Million)</u>
US	350
France	275
West Germany	196
Other Western Europe	70
Japan	75
Total	966

been erected, but only the tooling and repair plant is finished and in operation.

The USSR is depending almost entirely on the US, Western Europe, and Japan for equipment and production technology for the plant. Initially, the Soviets were prepared to spend \$1 billion for Western equipment and services. Contracts already total \$966 million, however, and large purchases have yet to be made.

Western Europe is well ahead of the US in selling equipment, with contracts worth \$541 million. France is supplying the engine plant, West Germany the transmission plant, and Italy the conveyor system; heavy presses and stamping systems are being supplied by Japan. West European firms have had an advantage over the US and Japan because of their more advantageous location, their better price and credit terms, and their recent experience in building car plants in the USSR.

Soviet purchases in the US for the plant have soared since early last year when the US extended credit through the Export-Import Bank, Chase Manhattan, and other commercial banks for a total of \$323 million at six percent interest. More than 20 US firms have contracts ranging in value

from \$1 million to \$43 million, and dozens more have smaller orders. US sales, which now total \$350 million, may reach \$500 million if the Soviets purchase US machine tools for making axles and crankshafts. In addition, most of the equipment for a \$70-million computer system has yet to be purchased; so far, only \$12 million has been spent on IBM computers for the foundry. Until credit was offered, the Soviets had restricted their US purchases to \$26 million for foundry technology and gear machines that were not available elsewhere.

Difficulties in keeping Kama on schedule were inevitable because the project was poorly planned from the beginning. Initially, the USSR had wanted a large Western truck manufacturer to help design and build the plant, but the undertaking proved too large or unattractive for any single firm. After two years of negotiations with numerous Western firms, the Soviets began the construction of buildings and support facilities, and parceled out the production engineering to Western firms.

As expected, Western firms found that fitting their engineering layouts to Soviet blueprints was costly and time consuming. Soviet reluctance to allow Western engineers access to the building site during the construction phase resulted in further delays. The US firm that designed the foundry had to renegotiate its \$9-million contract last year to take care of time and cost overruns.

Because Kama is not being finished on time, the Soviet truck industry will fall about 5-percent short of meeting its 1975 production goal of 765,000 trucks. In addition, the transportation industry will be adversely affected. The economy badly needs the three-axle Kama trucks for short-distance hauling, particularly for agricultural crops and construction materials.

These trucks can carry up to 11 tons of cargo, and up to 20 tons when used with semi-trailers.

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STIR IN WORLD GOLD MARKET

From a peak of nearly \$180 an ounce in early April, gold prices have trended downward to \$157 an ounce in London on June 13. In the last two weeks, major oscillations have reflected the market's reaction to US and EC developments:

- May 30—up \$6.50 when the US Senate passed a bill allowing US citizens to own gold.

- May 31—down \$5.25 when US Treasury officials emphatically opposed private ownership.

- June 5—up \$7.25 when Secretary Simon suggested the US may be amenable to a rise in the official price.

- June 7—down \$3.50 when EC finance ministers failed to propose a revaluation in the official price.

The recent downward trend in price can largely be explained by the decline in commercial demand for gold, which has been only partially offset by increased speculative demand. Commercial users have gradually withdrawn from the market because of high prices and the worldwide economic slowdown.

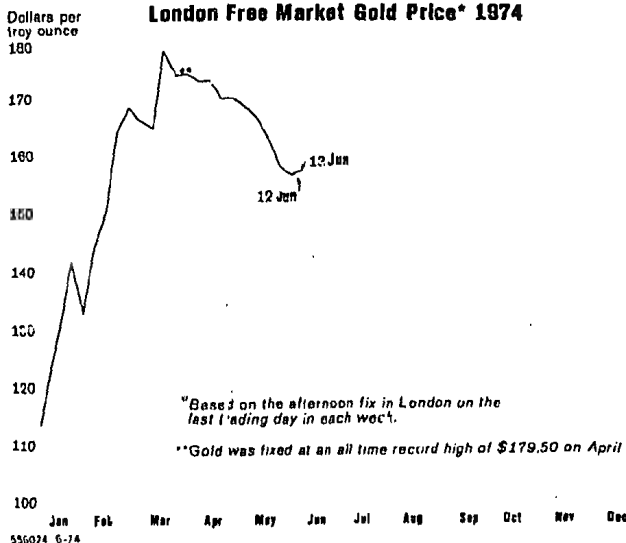
commercial gold purchases are down about one third from their 1973 peak. At the same time, new gold sales by South Africa and the Soviet Union are almost as high as last year.

Sharp fluctuations in price are likely to continue until gold's future role is explicitly defined. EC finance ministers and central bank governors

failed to take a definitive stand on gold at their recent meetings. The Group of Ten announced on June 12 that gold could be used as collateral for loans at a price determined by the lender instead of the official price of \$42.22, but the agreement does not radically change the status quo. It represents a joint effort to provide Italy and some other needy countries with a means of obtaining additional loans to finance their oil deficits.

Other new arrangements to permit the financing of payments deficits by using gold at a higher price—but without increasing its future role in the monetary system—are not likely at this time. If the agreement of June 12 leads to gold-backed loans, central banks probably will have a vested interest in preventing sharp fluctuations in the price of gold on the free market. Thus, free market sales, and even intra-bank sales by central banks, are unlikely.

London Free Market Gold Price* 1974



CEMA MINISTERIAL TO OPEN

Heads of governments from the USSR and its eight CEMA partners will gather in Soria from June 18-20 for the 28th session of the Council of Mutual Economic Assistance. The session will be heavy on atmospherics for CEMA's 25th anniversary.

Final approval is expected to be given important multilateral projects worked out in recent months for the development of raw material and energy resources. These include:

- Construction of a huge steel complex at Kursk in the USSR.
- Expansion of Soviet natural gas exploitation at Orenburg and construction of a pipeline from there to Eastern Europe.
- Construction of a high-voltage power line connecting the Soviet European grid with that of Eastern Europe.

The East Europeans are investing heavily in Soviet raw material resources. Some 30 other projects involving the development of Soviet resources are under consideration. These investments continue to bind the East Europeans closer to the USSR but also assure them of long-term sources of raw materials.

To balance the emphasis on Soviet resources development, the session may seek to publicize exploitation efforts elsewhere. Multilateral development of Cuban nickel mines, which has been under consideration, might be announced.

The participants doubtless will applaud the progress made during the last year in diversifying the forms of economic integration. Three more international economic associations have been created. These associations coordinate activity at the enterprise rather than governmental level, and

promise more flexibility than usual in the CEMA intergovernmental machinery.

There is apt to be little progress, however, toward increasing the use of financial and monetary tools in intra-CEMA dealings. The tentative agreement made last year to revise the exchange rate of national currencies and the transferable ruble, CEMA's common currency, seems to have run into problems. Moscow continues to oppose necessary monetary reforms—such as making the transferable ruble convertible—partly because it would give its CEMA partners greater economic flexibility in their dealings with the West.

The participants will have to grapple with any difficulties that have arisen in the current effort to coordinate national economic plans for 1976-80. The Soviets are insisting on much more detailed coordination than heretofore. Complicating the coordination effort is the revision of CEMA foreign trade prices, which is done before each five-year plan period. The East Europeans are concerned that large increases in the prices of Soviet raw materials, particularly oil will unduly strain their economies.

The government leaders will undoubtedly consider tactics to be used in CEMA's effort to establish a dialogue with the EC. The EC has responded positively to CEMA Secretary General Fadeyev's proposal last summer to begin negotiations on a formal EC-CEMA relationship. Fadeyev recently indicated, however, that CEMA is not yet willing to establish direct contact with the EC Commission, something the EC considers essential before opening negotiations.

Bucharest seems prepared to play its usual maverick role, judging by its recent commentaries on CEMA, in which it strongly restated its views on the acceptable limits of economic integration. It is not clear, however, what specific issues have upset the Romanians.

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AUSTRALIA: A LEFTIST FOR WHITLAM

The left wing of the Australian Labor Party will have new prominence in party councils as a result of the elevation this week of its most famous member, Dr. Jim Cairns, to deputy party leader. Cairns—an outspoken critic of US policies and of the US-Australian defensive alliance—also becomes deputy prime minister.

The Labor Party caucus, composed of members of the newly elected House of Representatives and Senate, selected Cairns on June 10 by a vote of 54-42. Cairns is popular within the party and came within six votes of beating Whitlam for party leadership in 1968 when Labor was still in the opposition.

Cabinet positions in the new government will be distributed the same as before, with Cairns retaining his portfolio as minister of overseas trade. Cairns has indicated that he expects to use his new position as deputy prime minister to increase his influence in economic policy generally. He will probably push for additional government legislation to assure Australian control over its natural resources and to further restrict

the influence of foreign investment in the domestic economy.

Cairns' selection as deputy prime minister is due in part to the increased strength of the left wing of the Labor Party as a result of the recent national elections, but it also reflects a growing restiveness within the Labor Party caucus with Prime Minister Whitlam's arrogant style of leadership. Cairns has promised to give the caucus more say in decision making, whereas Whitlam has often antagonized party members by presenting them with a fait accompli. Whitlam had opposed Cairns' selection and reportedly made a last-minute effort on behalf of his own candidate, former deputy prime minister Lance Barnard, but the Prime Minister obviously did not stake his own future on the vote.

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VIETNAM: TALKING AGAIN

Communist negotiators this week conditionally accepted Saigon's offer to restore their diplomatic privileges and immunities in exchange for a resumption of military talks between the two sides. The Communists returned to the talks in Saigon on June 11 but continued to boycott the political discussions in Paris and the Four Party talks to locate US soldiers missing in action.

Saigon's move was intended in part to help encourage a favorable atmosphere for aid measures before the US Congress. Although there was some apprehension within the government that the offer might be interpreted by the Communists as capitulation and weakness, President Thieu was apparently convinced that many US congressional leaders were blaming Saigon for the breakdown in the talks. Thieu may well have believed that any propaganda advantage the Communists would gain from the new government concession would be offset by a positive effect on congress.



Cairns

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Although South Vietnam still hopes that the Paris talks will be revived, the outlook is for further delay. The Communists continue to demand that Saigon first "seriously consider" their six-point peace plan of last March—a rehash of previous demands that the government implement the cease-fire and recognize Communist political and territorial claims in the South.

Saigon steadfastly refuses to discuss the Communist proposal, arguing that no further elaboration of the present agreement is needed. President Thieu re-emphasized his opposition to any modifications of the existing agreement in a public speech on June 6. In remarks directed at Washington, Thieu also displayed apprehension over the possibility of a new round of US negotiations with the Communists, and expressed concern that continued US assistance to his government would be conditioned by Saigon's willingness to agree to such new negotiations. The South Vietnamese leader claimed he could never agree to this.



Sanya

THAILAND: HOT SUMMER AHEAD

The new Sanya government, barely in office two weeks, is already being severely tested by radical student and labor leaders. Thousands of textile workers, fearful of massive layoffs, occupied the Labor Department's premises last weekend in an attempt to gain government assurances that their jobs would be protected. Although the government reportedly has met this demand, a handful of student activists and labor leaders are attempting to keep the situation stirred up. Their speeches have an anti-government and anti-US tone that is sure to alarm the conservative elite, as will the activists' encouragement of workers' strikes.

If the strike movement spreads, it could threaten the survival of the Sanya government.

Prime Minister Sanya may be able to persuade more moderate student leaders, who still carry influence among the generally conservative Bangkok student population, to stay away from the politically sensitive US base issue. If he cannot, he may face pressure from Krit either to clamp down on the radicals or to risk losing the backing of the military.

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CAMBODIA

MUSICAL CHAIRS

President Lon Nol and Prime Minister Long Boret took steps this week to remedy the political paralysis that has gripped the government as a result of feuding between the cabinet and the National Assembly, and the government's handling of the recent student unrest. Long Boret's pro forma resignation on June 13 opens the way for him to put together a new cabinet, apparently to be composed of members of Lon Nol's dominant Socio-Republican Party and independents. The new cabinet will probably contain a number of hold-overs, but some contentious figures are likely to be dropped to make room for new blood.

In order to maintain the government's coalition nature, a senior member of Sirik Matak's minority Republican Party reportedly will join Matak on the Executive Council, the country's top policy-making body. Lon Nol has apparently decided against a temporary suspension of the assembly, but at last report he was seeking assurances that the deputies would forgo their disruptive interpellation of cabinet members—a tactic that had provoked the resignations of several members of the outgoing government.



Long Boret

The political maneuvering in Phnom Penh was conducted against a backdrop of rumors about terrorist activities and more student demonstrations. None have developed so far, however, and state funerals for the two officials slain last week were held without incident on June 12. The police have released 73 students who had been arrested, but the continued detention of a number of known agitators has added to the disarray in student ranks.

THE MILITARY SCENE

Action remained light this week on most battlefronts. There was some sharp fighting northwest of Phnom Penh around Lovek, however, as the Communists began a new effort to take that government base. Lovek's defenders repulsed the attacks and claim to have inflicted heavy casualties. Northeast of Phnom Penh, government units began moving toward suspected Communist rocket-launching sites on the east bank of the Mekong River just upstream from the capital.

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BURMA: LABOR TENSIONS REMAIN

Forceful action by the Burmese army ended serious labor disturbances in Rangoon last week. The government moved 3,000 troops into the city, and the workers called off further strikes after two days of violent confrontation with authorities. At least 22 demonstrators were killed.

The violence has left considerable bitterness among the workers as well as among students who had joined the protests. The students may have been responsible for the increasingly political cast of the demonstrations just before they ended. Some protesters had begun calling for an end to President Ne Win's "one-man rule."

The government has promised to try—and probably will be able—to meet the demands of the workers for more rice. Even if the current emergency is weathered, however, more severe

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rice shortages are expected in the future, and further labor unrest could occur at any time.

The situation has posed a severe test for Ne Win's newly reorganized "constitutional" regime. The President has been out of the country on a goodwill trip, and strains apparently developed among his subordinates over how to handle the strikes.

"communist influence" was behind the disturbances, and leftists both within and outside of the government are being blamed.

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INDONESIA: STORM CLOUDS GATHERING

The anti-Japanese riots in January revealed a real depth and intensity to the social and economic tensions in Indonesia, but government actions since the riots have concentrated on finding culprits rather than causes. Many critics of the regime have been arrested, and press freedom has been significantly curtailed.

Although government officials are now paying lip service to the need for changes, it is questionable whether the Suharto regime can reverse current trends. In rural areas, particularly on Java where the bulk of the population lives, the peasants find it increasingly difficult to survive. Changing patterns of land tenure and labor use are driving increasing numbers of people off the land, and some local observers believe that rural pressures are building to the point where anarchy is a real possibility. The government is being advised by Western-trained specialists who have prepared impressive blueprints stressing technology and capital, but few officials have the will or ability to put the plans to use.

Thousands of the rural unemployed are moving to the urban areas, aggravating existing social and economic problems. The gap between rich and poor is most obvious in the cities, where it helps to intensify social and racial hatreds, particularly

the historic resentment of the Chinese businessmen. Unlike the countryside, the cities have potential leaders who are already speaking out and trying to exploit popular discontent.

The most active anti-government critics are the students. Muslim student leaders reportedly met in early May to discuss demonstrations against alleged anti-Islamic government policies. The Muslim students are among those most disgruntled with the Suharto government, although they were not involved in the anti-Japanese rioting, partly because they were more concerned with other issues. If the Muslims could get a general anti-government protest movement under way, secular student groups might well join in.

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During the past eight years, the Suharto regime has alienated or disappointed many of its former political supporters. There is no specific event in the near future that would provide an obvious date for anti-government protests, but a spontaneous eruption of violence such as occurred in Bandung, West Java, last August cannot be ruled out. In the present uneasy political situation, a significant breakdown in public order could provide the catalyst for a serious challenge to Suharto.



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Suharto

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JAPAN - SOUTH KOREA: NEW STRAINS

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President Pak Chong-hui's continuing campaign to suppress domestic dissent is once again a target of Japanese media attacks, making it difficult for Tokyo's leaders to defend a policy of close cooperation with South Korea.

Seoul's recent decision to bring South Korean opposition leader Kim Tae-chung to trial has most offended Tokyo. From Japan's point of view, the move violates a diplomatic understanding reached last fall after Kim was kidnaped from Japan by South Korean security agents. The agreement provided that Kim would not be prosecuted for his political activities overseas and would be free to travel abroad. The Koreans claim that Kim is being tried for "election law violations" dating as far back as 1967, a domestic offense of no concern to the Japanese.

The Kim trial comes on the heels of the arrest in South Korea of two Japanese for subversive activities. The arrests triggered intensified Japanese media attacks on the repressive nature of the Pak regime as well as indirect criticism of the Japanese government for being too soft on Seoul.

In response to such pressures, Prime Minister Tanaka has twice recently called on Seoul to honor its agreement to allow Kim to leave the country. Foreign Minister Ohira on June 8 complained that the two countries were "considerably apart" in the interpretation of the diplomatic understanding and promised a "close watch" on the handling of the Kim trial.

Seoul, nevertheless, appears determined to press ahead with the trial. President Pak apparently has two basic purposes in mind: to make it clear to his domestic political opponents that criticism of the government will not be tolerated from any quarter; and to remind Japan, and possibly the US as well, that outsiders should not advise the Koreans "how to run their own business."

At least some South Korean officials now feel that Seoul has been too abrasive in recent weeks. They fear that Tokyo will retaliate by recalling its ambassador. Some Japanese press reports have suggested that this action is indeed being contemplated. Last year, when tensions generated by the Kim kidnaping were at their peak, Foreign Minister Ohira did indeed refer to such a possibility. Seoul has reportedly quietly sent a special envoy to assess Japanese intentions.

Concerns that the issue may snowball are shared in the Japanese government. Although Tokyo values highly its economic and political links with South Korea, government leaders fear that the weight of public opinion will make it increasingly difficult for Tokyo to provide economic aid to South Korea or to openly maintain close political contact. There may also be complications in maintaining continued Japanese co-sponsorship of the Korean resolution at the UN. And should Australia and other countries once close to the South Korean government move ahead with plans to recognize North Korea, the current climate of opinion in Tokyo might stimulate sentiment for similar movement by Japan.

At this point, Tokyo probably hopes for some sort of compromise with Seoul that will help pacify Japanese public opinion. There is evidence that the Japanese government hopes that Seoul will deport the two Japanese later this year, even if—as seems likely—they are convicted this summer. This might open the way for Tokyo to acknowledge that the Kim trial is a domestic Korean matter and to do so without sparking another round of charges on softness toward Seoul. It is doubtful, however, that the Japanese media and opposition parties would let the government off the hook this easily, especially since South Korean prosecutors seem ready to introduce more serious charges against Kim Tae-chung at some point in his trial.

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KOREA: NEW MILITARY EQUIPMENT

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For the North

[redacted] Pyongyang has received significant new military equipment from both China and the USSR. At the same time, the North Koreans are actively pursuing a naval construction program of their own.

[redacted] North Korea received two R-class boats from the Chinese in 1972, but the other two are apparently recent arrivals from Tsingtao. The Chinese had been preparing them there for export since last summer, when two R-class units with pendant numbers outside the series used by the Chinese navy were first observed. Along with the four R-class boats, Pyongyang has four W-class attack submarines received from the USSR in the early 1960s.

In addition, a Komar guided-missile boat was detected under construction at a west coast shipyard. This is the first evidence that the North Koreans have begun production of Komars, although they probably will require either Soviet or Chinese assistance on the ship's electronics system. The burgeoning North Korean shipbuilding industry has already produced two destroyer escorts, in addition to numerous gunboats, torpedo boats, and amphibious craft.

North Korea currently has ten Komars, all assigned to the East Coast Fleet. It also has eight of the larger Osa-class guided-missile boats—four on each coast.

Pyongyang has been improving its West Coast Fleet for well over a year, and the addition of the R-class submarines plus the production of Komars will hasten this process.

[redacted] The FROG-7, the latest in the series of Soviet tactical surface-to-surface missiles, can deliver a high-explosive, chemical, or nuclear warhead up to 43 nautical miles. The Soviets almost certainly would not provide North Korea with nuclear or chemical warheads. Pyongyang has had earlier models of the FROG since 1969.

...and for the South

For some time, Seoul has had a variety of anti-ship missile systems on its shopping list, including the Norwegian Penguin, the Israeli Gabriel, and the US Standard, as well as the Exocet. Efforts to obtain one of these systems reflect Seoul's concern over the superior naval firepower of North Korea. The North's superiority stems from its Osa and Komar guided-missile boats, which carry the Styx missile that has a range of 20-25 nautical miles.

The South Korean chief of naval operations was reported to have remarked recently on the need for developing a naval force capable of effectively counteracting that of North Korea. The acquisition of the Exocet—with a range equal to that of the Styx—would be a major step toward redressing the current naval imbalance between the two countries.

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ETHIOPIA: GOVERNMENT STRENGTHENED

Military moderates still appear to hold the balance of political power in Ethiopia, but they have apparently decided to allow the civilian government some leeway in dealing with the country's pressing problems. Prime Minister Endalkatchew, who maintains close contacts with Emperor Haile Selassie, is taking advantage of this greater latitude to strengthen his own position and that of the government's conservative elements, toward whom he leans.

The military moderates remain an amorphous group that makes decisions by consensus and has no central leadership. The moderates appear to represent the mainstream of army sentiment at all but the highest levels. They are pressing for change toward a more democratic, modern society, but they want to preserve the monarchy and do not want to assume the burdens of ruling.

The cabinet appointments that Endalkatchew announced late last month demonstrate his increased confidence in dealing with the dominant military elements. In the most significant of the changes, Interior Minister Zewde, a leader among progressive elements, was shifted to the Foreign Ministry, where he will have less of a voice in domestic affairs. Unlike Endalkatchew, Zewde has the full confidence of the military moderates; he was their initial choice to become prime minister when they forced a government change last February.

On the other hand, the military moderates probably view the new acting interior minister, Demissie Teferra, with suspicion. He served in the discredited former government and is considered a conservative. Moreover, the change in the leadership of the ministry places the security services more firmly in the hands of Endalkatchew.

Another of the recent appointees, Tekalign Gedaum, had resigned as minister of planning and development only a few weeks ago; he has now been made minister of telecommunications.

His reappointment to the cabinet suggests that the Prime Minister considers his position strong enough to withstand added criticism.

The moderates are not pleased with the extension of conservative influence, but have apparently accepted Endalkatchew's more independent behavior because they do not believe that it threatens long-term prospects for significant changes. The moderates seem willing to compromise on some issues and to work with the government in order to avoid violence and to hold in check traditional rivalries that could threaten the country's survival.

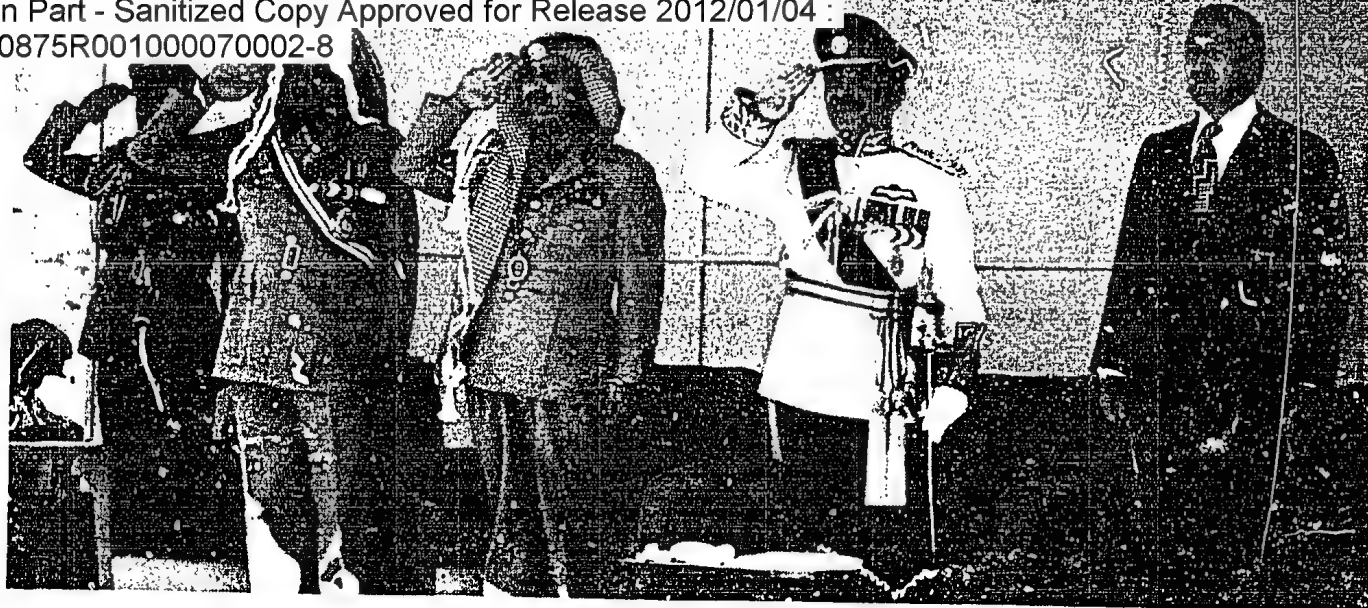
There are several potential areas of disagreement. A special commission is currently conducting an inquiry into charges of corruption leveled against former high government officials. The military moderates would react strongly if they were not satisfied with the commission's findings, or if the government failed to take prompt action against any official criticized by the commission. They would react similarly to any attempt by conservatives to dominate the constitutional committee that is to transform Ethiopia into a limited monarchy in which the government will be responsible to parliament. The committee is due to deliver its report in about three months. The military is also closely watching the government's progress in carrying out promised social and economic reforms, particularly regarding the restructuring of Ethiopia's traditional land-tenure system.

Meanwhile, the government is trying to reduce the likelihood of a recurrence of the civil strife with which it has had to grapple until recently. It has set up two committees under the direction of Defense Minister Abiye with broad mandates to handle matters affecting national security. One committee studies grievances within the military; the other deals with any problem in the civilian sector that threatens public order. The latter group has helped the government regain some initiative in dealing with civil disorders by taking an active role in arbitrating problems, such as labor strife and student unrest, which have plagued the cabinet since its formation. The commission is currently trying to settle an 11-day old truck drivers' strike that has created shortages throughout the country.

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The King, Prime Minister Rifai, and high-ranking military officers.

JORDAN: TROOPS STILL DISGRUNTLED

Measures taken by King Husayn after the mutiny of an army unit last February have failed to quiet restiveness among the Bedouin soldiers, who are the bedrock of Husayn's power. The festering discontent may lead to new trouble in the army, with the King a more direct target of criticism than he was in February.

Since the mutiny, Husayn has moved to improve living conditions for the military, especially for the army rank and file. In addition to granting the pay increase demanded by the mutineers, he has had commissary and medical services upgraded, assumed the debts of noncommissioned officers, and ordered army chief of staff Bin Shakir to give top priority to barracks construction. Inadequate housing apparently has been a major source of dissatisfaction.

Nevertheless, there is a strong residue of bitterness among both officers and enlisted men over continued corruption among senior officers and lack of contact with the King. Although Husayn has recently begun to visit army units more regularly, he has usually been sealed off from the troops by Bin Shakir and a wall of aides so that the Bedouin soldiers continue to be denied the easy access to Husayn that they once enjoyed.

Moreover, many of Husayn's Bedouin supporters in the army believe the King still does not

understand why the 40th Armored Brigade mutinied. They are beginning to criticize Husayn for lack of leadership and to blame him personally—rather than his circle of advisers—for the spread of corruption in the army and the government. There has been some talk of another mutiny.

The discontent, especially among middle grade officers, is said to have spread recently as a result of the forced retirement of several Bedouin army and public security officers and the appointment of Circassian officers to high-level military slots. Bedouin officers reportedly are especially resentful that the Circassians—a tiny minority in Jordan—hold a near monopoly on top air force posts. They are also angry because they believe the Iraqi-born air force commander has, with Husayn's approval, resumed secret payments to several high-ranking Circassian air force officers to ensure their continued loyalty to the throne.

Prime Minister Rifai, who was the focus of much of the mutineers' wrath, also continues to be heavily criticized for being out of touch with problems on the East Bank and for surrounding himself with a "pro-Palestinian clique." East Bankers, and especially the Bedouin, have always resented the attention Husayn has paid to the West Bank and to Palestinian problems, believing that he has shown his Palestinian subjects too much favoritism. Some Bedouin officers fear that Rifai might try to persuade the King to make a

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deal with West Bank Palestinians at the expense of East Bank Jordanians, presumably to ensure their support for the King's claim to the Israeli-occupied West Bank. [redacted]

NORTH YEMEN: NEW ARAB AID

Yemeni Prime Minister Makki visited Saudi Arabia and several other Persian Gulf states in May. In addition to a sympathetic hearing and assurances of political support for his country's struggle with South Yemen, Makki netted Sana at least \$125 million in military and economic commitments, with promises of large amounts of additional military support.

Since the early 1970s, when the USSR shifted its attention to Aden and began withholding delivery of military equipment and spare parts that had been contracted for, Sana has been purchasing arms from other Arab states as well as West European countries. With Saudi Arabia's new financial commitments, Sana should eventu-



Makki

ally be able to realize its goal of completely Westernizing its armed forces. The new economic commitments to Sana reiterate the oil-rich states' continuing preference for bilateral aid, even over their own proposed multilateral aid institutions. 25X1
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Of the five countries Makki toured, Saudi Arabia was by far the most forthcoming. Jidda will increase its annual budget support to the Iryani regime by some 50 percent, reaching \$34 million this year. The Saudis also agreed in principle to provide at least \$30 million for construction of airports, roads, and other projects as well as for technical assistance and equipment for Yemen Airlines. The Saudis reaffirmed their willingness to finance the retraining and re-equipping of Sana's military forces with Western arms; the Saudi minister of defense reportedly spoke of an eventual expenditure of up to \$700 million. During the past year, the Saudi government has financed over \$75 million of Soviet arms purchased from Egypt for Sana, including jet aircraft and tanks, and has paid for some \$20 million worth of French, UK, and US equipment. Nevertheless, even though Jidda has been anxious to reduce Sana's reliance on Communist arms suppliers, the Saudis have not always followed through on their promises.

Abu Dhabi is following up its military assistance to Sana over the last year—during which it financed purchases of 30 armored cars from Jordan and two transport aircraft from the UK—by arranging for the purchase of \$2.6 million in small arms from the US. Abu Dhabi also agreed to provide over \$300,000 annually to cover the costs of Jordanian military advisers currently assigned to Yemen, and may be willing to pay for Pakistani and Sudanese advisers if Sana can arrange a deal for their services with Islamabad and Khartoum.

Economic pledges from Abu Dhabi, Kuwait, and Qatar include about \$60 million in grants for education, public works projects, and the purchase of petroleum products. Although Bahrain pleaded poverty, it agreed—for symbolic purposes—to extend small amounts for educational and medical aid. [redacted]

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VENEZUELA: THE CUBAN CONNECTION

The re-establishment of diplomatic relations with Cuba is regarded as a certainty in Venezuela; only the timing and a few of the details remain to be worked out.

Spokesmen for President Carlos Andres Perez and his Democratic Action Party have made it clear that the administration intends to follow the previous government's policy of moving toward the renewal of political and economic ties with the Castro regime. Even prior to Perez' inauguration in early March, officials of the incoming administration had met privately with Cuban representatives in Caracas. Later, Luis Santander, a special emissary of President Perez, flew to Havana to discuss the conditions under which diplomatic relations might be restored.

Since then, there have been statements on the Cuban question by Foreign Minister Schacht; by Gonzalo Barrios, secretary general of the governing Democratic Action Party; and by Perez Guenerro, a close adviser to President Perez. These have all fueled speculation in Caracas that an announcement was imminent, possibly before the end of June. Even the leader of the small but influential Cuban exile community in Venezuela acknowledged to the US ambassador last week that recognition was inevitable. According to the Cuban, Perez was insisting that there be no "hanky panky" in Venezuela on the part of Premier Castro, and that the Venezuelan embassy in Cuba be allowed to function without restraints.

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Carlos Andres Perez

So far, Perez and other party leaders have consistently avowed that Venezuela would not make a unilateral move toward Cuba. Instead, Venezuela is seeking collective action by the Organization of American States to lift the economic and political sanctions imposed on Cuba largely as a result of a Venezuelan request in the mid-60s. The Venezuelan initiative to remove the sanctions has the support of a majority of OAS members, but not yet the required two thirds. The Venezuelans may now believe, however, that the informal consensus of the majority of OAS members suffices for the "collective action," which they earlier considered necessary before resuming relations.

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During his three months in office, President Perez' approach to key policy issues has been characterized by pragmatism. Theoretical and ideological considerations have taken a backseat to a calculated assessment of the advantages and disadvantages of a particular act. Because Venezuelan government officials and businessmen tend increasingly to see considerable economic benefit from re-establishing trade ties with Cuba—particularly from selling the Cubans oil—it seems likely that the Perez government will move soon in this direction. Full diplomatic ties can be expected to follow.

ECUADOR: THE PERILS OF PETROLEUM

The OPEC meeting that begins in Quito on June 15 will give the Ecuadorean government what it views as its first and perhaps best chance to influence international oil policies.

Ecuador has been a petroleum exporter only since 1972 and has been an OPEC member for less than a year. The country now exports 210,000 barrels of petroleum daily, which ranks it at the bottom of the 12-member OPEC group. Nevertheless, the military-dominated Rodriguez administration is eager to be accepted as an equal among the oil producers and can be expected to add its voice to the calls for increasing the benefits of oil through higher prices or, more likely, higher taxes. Moreover, because Ecuador's oil reserves now appear considerably less extensive than had been originally projected, the Ecuadorean delegation will lobby quietly for conservation measures.

A vague sense of frustration besets the makers of Ecuadorean petroleum policy. On the one hand, they are aware that the need to moderate the extraction of their country's oil will weaken Ecuador's position at future OPEC meetings. On the other, however, they want to capitalize on a unique juxtaposition of events that not

only brings the world's producers of petroleum to Quito at virtually the same time that Ecuador has become a significant exporter of oil, but does so at a rare moment of fiscal prosperity and administrative stability for Ecuador.

Oil now almost completely dominates the nation's economy and has become the focus of support for Rodriguez' rule within the military. Unprecedented foreign exchange earnings deriving from oil have also accelerated inflation, which in turn is bringing consumer pressure to bear on the government. Thus, Rodriguez feels that he must steer a cautious course between high petroleum income and high inflation, between capitalizing on the world's hunger for energy and using of Ecuador's less than bountiful petroleum resources, and between taking maximum political advantage of the present OPEC meeting and planning prudently for the country's economic future.

In this atmosphere, Quito's likely policy toward and within OPEC has emerged over the past several weeks. Because, of all member countries except Indonesia, Ecuador is the poorest and has proportionately the most to gain from oil, the Ecuadorean delegation will probably emphasize the individuality of the members. It will argue that differing national levels of development, trade balances, production costs, and recoverable reserves militate against the establishment of broad OPEC policies. Instead, Ecuador will take the position that each member country should devise its own formula for increasing oil revenue, restricting windfall company profits, and conserving resources.

This is the only tack that Rodriguez can take politically in view of the country's economic position and his own increasing dependence on oil. His next step—assuming that the world energy situation does not change radically—would be to increase petroleum taxes and production fees to increase government oil revenues, placing the onus of outright price rises on the Texaco-Gulf consortium, which exploits most of the country's oil.

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MEXICO: RURAL DISCONTENT

Guerrilla violence and signs of rural discontent are once again plaguing the Echeverria government.

The strange case of the political boss of the southwestern state of Guerrero, Senator Ruben Figueroa, kidnaped two weeks ago by guerrilla leader Lucio Cabanas, remains unresolved. Cabanas operates in Guerrero and receives considerable support from the peasants there. Figueroa, the government's choice for state governor in elections this December, went to a meeting he had proposed with Cabanas to offer him amnesty and wound up Cabanas' prisoner. So far the federal government has only partially met Cabanas' demand that army troops be withdrawn from the area before he will negotiate Figueroa's release. Authorities are doubtless searching for a way to free Figueroa unharmed and to capture or kill the troublesome Cabanas at the same time. The government's stated policy is not to give in to kidnapers' demands, but it may have to bend even more than it already has in this case.

Compounding the Figueroa problem was the kidnaping last week of a wealthy Mexican businessman and the murder of a student leader in Guadalajara. The businessman died while in captivity, apparently of a heart attack, but his abduction brought to light what could be a new guerrilla group called the Salvador Allende Urban Command. Authorities are not convinced of this group's authenticity, however, and speculate that the kidnaping may actually have been the work of the 23rd of September Communist League, a group that has perpetrated numerous acts of terrorism since the spring of 1973 and continues to be active despite recent arrests of several of its members. The student's death adds to the tension in Guadalajara, the scene of many acts of violence in the past several months.

Publicly, the government still lumps the guerrillas together with common criminals. The defense minister has even denied that guerrillas exist in Guerrero. Privately, authorities admit



President Echeverria

they are a nettlesome problem, but believe the guerrillas can be controlled by better training and intelligence work on the part of security forces.

Many in the government also recognize that, in the end, the grievances of the guerrillas will only be resolved by correcting social and economic inequities. The government is particularly concerned over the threat to public order that exists in the impoverished rural areas, where traditional discontent and distrust of the central government could easily fan minor incidents into serious and possibly widespread violence. In April, 32 campesinos and police were killed in two incidents arising from the use of farm land. These confrontations do not always end in shoot-outs—sometimes politicians save the situation with fresh promises—but bloodshed on the *campo* is not uncommon.

The unrest is partly a result of corruption and exploitation, but ignorance, population pressures, a shortage of good land, and the concentration on industry during the last 30 years also play

a part, as do the rising expectations of the peasants. President Echeverria has in some ways heightened these expectations. He came to office in 1970 promising to improve the lot of the peasantry, a commitment he frequently renews during trips to the countryside. He has already made more trips to the provinces than his three predecessors did during their collective 18 years in office, but the peasants have seen little results from these journeys.

Probably the chief factor responsible for the unrest, however, is the government's agrarian policy, with its system of *ejido* farms. The *ejido*, a variant of the ancient Indian communal lands, satisfied the urgent political need to give land to millions of impoverished peasants. But it has failed to meet the food needs of the country or the economic needs of the peasants themselves. The Echeverria administration intends to ease the problem of sluggish growth in agricultural production in part by collectivizing more *ejidos* and by providing them with increased public and private credit. The small landowner will not be forgotten—he too is included in plans for increased lending—but the emphasis will be on collectives and agribusiness.

PERU: A SPLIT IN THE JUNTA

The uproar surrounding the resignation on May 30 of Vice Admiral Vargas as navy minister has not only damaged armed forces unity but has deeply split the navy. The split has caused deep resentment in that service, and there are reports that dissident navy officers have been planning to take military action against President Velasco. Thus far, however, the dissident officers apparently have been unable to enlist the support of moderates within the army and air force—who also disagree with some of the President's policies. Most army and air force personnel apparently still back the President, however, and the navy is incapable of seriously confronting them with

force. Nevertheless, some disgruntled navy officers might attempt a move.

Other admirals have resigned during the past two weeks, either voluntarily to protest Vargas' forced retirement, or involuntarily because Velasco viewed them as actual or potential coup plotters. In addition, a large number of other navy officers reportedly have submitted their resignations. Further resignations, if they materialize, will exacerbate the current problem.

Vice Admiral Arce, who replaced Vargas as navy minister, has in the past been critical of the President's more leftist policies. He now appears, however, to be developing into a hatchetman for Velasco. The new minister reportedly pledged to rid the navy of "unrevolutionary" and disruptive officers before he retires next January.

Even though he may remain in office for less than a year due to health problems, President Velasco appears determined to crush any opposition in the navy to his continued leadership. Opposition, even by the outspoken Vargas, never constituted a serious threat to the President's leadership, however, and there have been no reported plans by moderate army generals to move against him.

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The moderate army generals can be expected to keep a close watch on the situation. Of particular importance will be their assessment of how the more radical military leaders, including a few leftist admirals, have profited from the recent split between the army and navy. Should the moderates conclude that their position has been seriously weakened and that Velasco intends to press ahead with more leftist policies, regardless of their objections, some can be expected to resign. If the army moderates were to leave the government, this would have more serious consequences for the stability and effectiveness of the regime than would similar actions by the navy.

At the moment the important army troop commands remain in the hands of loyal Velasquistas and a concerted military move to replace Velasco with a more moderate general is not yet likely.

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